

**REPORT TO THE
JOINT LEGISLATIVE AUDIT
AND REVIEW COMMISSION**

**FOR THE QUARTER
JULY 1, 2002 TO SEPTEMBER 30, 2002**



- TABLE OF CONTENTS -

TRANSMITTAL LETTER.....	1
JAMES MADISON UNIVERSITY.....	2-6
EXECUTIVE SUMMARY	
Special Review of the Cash Management and Capital Budgeting Practices in the Virginia Department of Transportation.....	8
Norfolk State University.....	9
Virginia Veterans Care Center.....	9-10
SUMMARY OF REPORTS ISSUED.....	12-14

October 4, 2002

The Honorable Kevin G. Miller, Chairman
and
Members, Joint Legislative Audit and Review Commission
General Assembly Building
Capitol Square
Richmond, Virginia 23219

This transmits our quarterly summary of reports issued for the period July 1, 2002 through September 30, 2002.

In addition to the typical items that we normally include in this report, I have included the Management Discussion and Analysis section of the James Madison University audit report. The University staff agreed to prepare the first report using the new accounting and reporting standards for governments and their colleges and universities. I would encourage the recipients of the report to review the entire report on our website http://www.apa.state.va.us/data/download/reports/audit_local/jmu01.pdf.

The *Executive Summary* includes reports that may be of special interest to the members of the Commission. We have included a report in the summary for the sole purpose of bringing to your attention matters of significance. These summaries do not include all findings within a report or all reports with findings.

The *Summary of Reports Issued* lists all reports released during the quarter and shows reports that have audit findings.

We will be happy to provide you, at your request, any reports in their entirety or you can find all reports listed in this document at our website <http://www.apa.state.va.us/reports.htm>. We welcome any comments concerning this report or its contents.

Sincerely,

Walter J. Kucharski
Auditor of Public Accounts

WJK:aom

JAMES MADISON UNIVERSITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

New Accounting Standards

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement 34, *Basic Financial Statements and Management's Discussion and Analysis - for State and Local Governments*, which established new financial reporting requirements. In November 1999, GASB issued Statement 35, *Basic Financial Statements and Management's Discussion and Analysis for Public Colleges and Universities - an Amendment of GASB Statement 34*, which applies the new reporting standards to public institutions. As component units of the Commonwealth of Virginia, public institutions will implement GASB Statement 35 at the same time the state government implements GASB Statement 34. Although the state will not implement GASB Statement 34 until fiscal year 2002, James Madison University chose to implement GASB Statement 35 in fiscal year 2001.

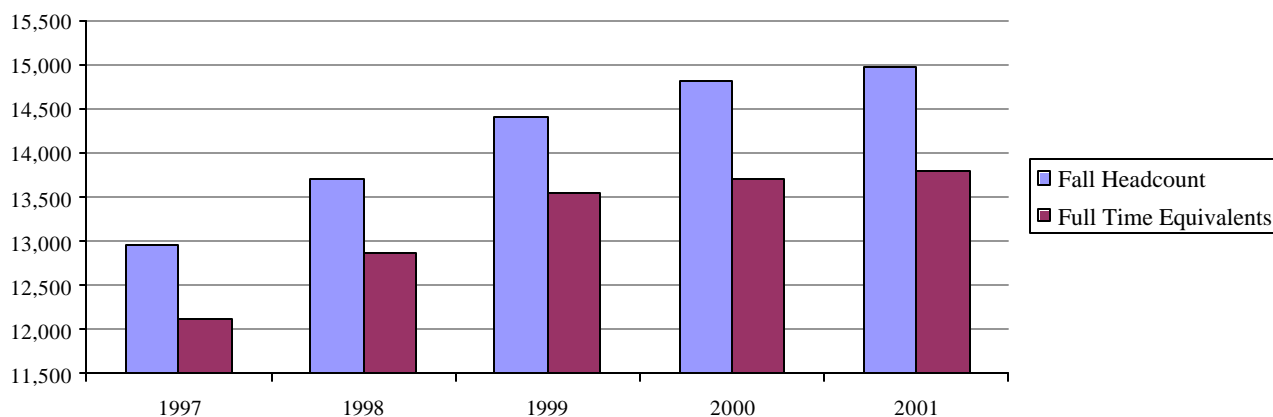
The new financial reporting standards significantly change the appearance and nature of the required financial information. The major changes are: (1) financial statements are presented on an entity-wide basis and not by major fund groups; (2) depreciation expense is recognized, previously it was not; (3) expenses rather than expenditures are reported; and (4) the basic financial statements are preceded by this Management's Discussion and Analysis.

As required by the new accounting pronouncements, the basic financial statements are: the Statement of Net Assets; the Statement of Revenues, Expenses, and Changes in Net Assets; and the Statement of Cash Flows. The following analysis discusses elements from each of these statements, as well as an overview of the University's activities. Since this is a transition year for the new reporting format, only one year of information is presented in the audited financial statements. For this discussion and analysis, the University restated previously reported financial information in order to provide a comparison.

Enrollment and Admissions Information

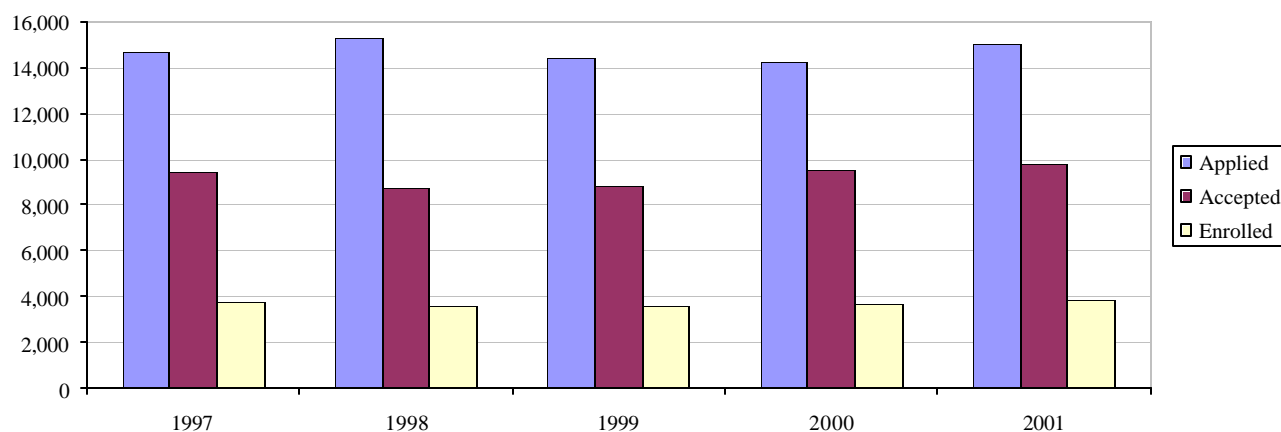
In the 1980's and 1990's, James Madison University's goals included continuous enrollment growth. This substantial growth developed considerably faster than the funding necessary to support the student population. In order to not make further sacrifices in the quality of programs by continued enrollment expansion, University management developed a strategic plan to stabilize enrollment at approximately 15,000 students. The following chart demonstrates the beginning of this trend.

Enrollment Information



Overall undergraduate and transfer applications, acceptances, and subsequent enrollment of accepted applicants are indicators of the University's popularity and selectivity among prospective students as shown in the graph below. JMU continues to be a popular choice for students seeking a comprehensive, student-centered educational experience.

Applications and Admissions



Statement of Net Assets

The Statement of Net Assets presents the University's assets, liabilities, and net assets as of the end of the fiscal year. The purpose of this statement is to present to the financial statement readers a fiscal snapshot at June 30, 2001. From the data presented, readers of the Statement of Net Assets are able to determine the assets available to continue the University's operations. They are also able to determine how much the University owes vendors and creditors.

Net assets are divided into three major categories. The first category, "Invested in capital assets, Net of debt," provides the University's equity in property, plant, and equipment owned by the institution. The next category is "Restricted net assets," which is divided into two categories, expendable and nonexpendable. Expendable restricted resources are available for expenditure by the institution, but must be spent for purposes as determined by donors and/or other entities that have placed time or purpose restrictions on the use of the assets. The corpus of nonexpendable restricted resources is available only for investment purposes. Unrestricted net assets are available to the University for any lawful purpose of the institution.

Statement of Net Assets (in thousands)

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Assets:		
Current assets	\$ 51,830	\$ 46,267
Capital assets, Net	260,619	246,025
Other noncurrent assets	<u>12,702</u>	<u>29,449</u>
Total assets	<u>\$325,151</u>	<u>\$321,741</u>
Liabilities:		
Current liabilities	\$ 37,547	\$ 33,851
Noncurrent liabilities	<u>85,738</u>	<u>93,999</u>
Total liabilities	<u>123,285</u>	<u>127,850</u>

Net assets:		
Invested in capital assets, Net of related debt	\$ 186,016	\$174,236
Restricted - Expendable	14,713	18,295
Restricted - Nonexpendable	276	245
Unrestricted	<u>861</u>	<u>1,115</u>
Total net assets	<u>\$201,866</u>	<u>\$193,891</u>

The University's total assets increased by \$3,410,000. Generally, noncurrent assets such as investments with the Treasurer of Virginia and appropriations available were used to construct and purchase capital assets. Total liabilities decreased by \$4,565,000. The primary cause was a reduction in long-term debt represented by principal payments made on long-term debt combined with no new debt issuances.

Statement of Revenues, Expenses, and Changes in Net Assets

Changes in total net assets as presented on the Statement of Net Assets are based on the activity as presented in the Statement of Revenues, Expenses, and Changes in Net Assets. The purpose of this statement is to present the University's operating and nonoperating revenues recognized and expenses incurred and any other revenues, expenses, gains, and losses.

Generally speaking, operating revenues are received for providing goods and services to students and other constituencies of the institution. Operating expenses are those expenses incurred to acquire or produce the goods and services provided in return for the operating revenues and to carry out the University's mission.

Nonoperating revenues are revenues received for which goods and services are not provided. For example, the University's state appropriations are nonoperating because they are provided by the state legislature without the legislature directly receiving commensurate goods and services for those revenues.

Statement of Revenues, Expenses, and Changes in Net Assets (in thousands)

	For the Year Ended	
	<u>June 30, 2001</u>	<u>June 30, 2000</u>
Operating revenues	\$144,302	\$134,254
Operating expenses	<u>211,250</u>	<u>193,761</u>
Operating loss	(66,948)	(59,507)
Nonoperating revenues and expenses	<u>69,516</u>	<u>61,023</u>
Income before other revenues, expenses, gains, or losses	2,568	1,516
Other revenues, expenses, gains, or losses	<u>5,407</u>	<u>3,469</u>
Increase in net assets	7,975	4,985
Net assets - beginning of year	<u>193,891</u>	<u>188,906</u>
Net assets - end of year	<u>\$201,866</u>	<u>\$193,891</u>

Operating revenues primarily include tuition and fees and auxiliary enterprises. Tuition and fees revenue remained relatively stable given the state's continued freeze on tuition increases. Auxiliary revenues increased due to the outsourcing of dining operations in July 2000. The University continues to recognize board fees and now receives commissions on dining services' revenues. Management fee expenses to the private vendor that manages the dining operations generally offset these increases. Other operating expense increases include salaries and fringe benefits (i.e., an approximate three percent pay raise for University faculty and staff in December 2000); information technology increases for system upgrades and the machine room renovations; custodial services and utilities increases primarily related to new east campus buildings; and significant natural gas cost increases in the winter of 2001.

Nonoperating revenue increases are attributable to increases in state appropriations. Other revenues and gains include capital appropriations, which remained consistent between fiscal year 2000 and 2001. The increase in this category is due to private gifts funding the construction of the new alumni center.

While it appears that the University received a substantial amount of new money from the state, given mandatory cost increases in various categories of expenses and funding for previous enrollment increases, the University maintained a relatively stable financial position over the course of the year. The majority of the increase in net assets represents additions to capital projects as discussed below.

Statement of Cash Flows

The final statement presented by the University is the Statement of Cash Flows. This statement presents detailed information about the institution's cash activity during the year. Operating cash flows shows the net cash used by the operating activities of the University. Significant sources of cash include student tuition and fees (\$47,932,000), auxiliary enterprise's receipts (\$77,206,000), and grants and contracts (\$16,205,000). Major uses of cash include payments for salaries, wages, and fringe benefits (\$118,019,000), payments for services and supplies (\$52,521,000), and payments for noncapitalized plant improvements and equipment (\$12,392,000).

The next section reflects the cash flows from noncapital financing activities and includes state appropriations for the University's educational and general programs and financial aid of \$69,003,000. The cash flows from the capital financing activities section deals with cash used for the acquisition and construction of capital and related items. Primary sources of cash include the conversion of noncash assets (appropriations available and investments with the State Treasurer) into cash (\$14,464,000), and capital appropriations of \$3,664,000. Significant cash outflows include the purchase of capital assets (\$25,650,000), and the repayment of principal and interest on capital related debt. The last section reconciles the net cash used by operating activities to the operating loss reflected on the Statement of Revenues, Expenses, and Changes in Net Assets.

Capital Asset and Debt Administration

Overall, invested in capital assets increases reflect the continued substantial campus construction. Significant fiscal year 2001 capital projects include a second residence hall and the alumni center on the East Campus, and the Main Campus parking deck. The Alumni center is primarily funded by private gifts and the other projects are funded by previously issued capital debt.

Significant additions to capitalized assets include buildings, equipment, and infrastructure for the East Campus' second academic building and building renovations for the Ashby residence hall. Major projects still

under construction at June 30, 2001, include the second phase of the East Campus student center (\$3,900,000), steam line repairs (\$1,600,000), the alumni center (\$1,600,000), and the Main Campus parking deck (\$6,700,000). The parking deck was put in use during summer 2001.

The University decreased its total long-term debt from \$89,095,000 in fiscal year 2000 to \$82,151,000 in fiscal year 2001 and incurred no new bond indebtedness during the year. The University participated in the Commonwealth's Fall 2001 bond sale. The University expected bond debt of approximately \$6,200,000 for renovation of Gifford residence hall. As calculated under the State Council of Higher Education in Virginia's formula, the University's 2001 debt service to expenditures ratio was five percent.

Overall, unpaid construction and other related contractual commitments decreased from \$13,200,000 in 2000 to \$11,900,000 in 2001. Unpaid commitments at June 30, 2001, primarily reflect the East Campus student center and alumni center projects. Further information relating to capital assets, construction, and capital debt is included in the Notes to the Financial Statements in Notes 4 and 7.

Economic Outlook

The University's economic outlook is closely related to its role as one of the Commonwealth's comprehensive higher education institutions. As such, it is largely dependent upon ongoing financial and political support from the state government. Due to a continued lag in state revenue collections, all state agencies, including higher education institutions suffered three percent cuts in General Fund appropriations for fiscal year 2002. In establishing the 2003-2004 biennial budget, the Virginia General Assembly applied further budget cuts to all state colleges and universities. Cuts were moderated for institutions that have been underfunded in the past. The University's scheduled budget cuts were \$4.7 million and \$7.3 million for 2003 and 2004, respectively.

Another significant factor in the University's economic position relates to its ability to recruit and retain high quality students. As noted earlier, applications remain strong. For the 2002-2003 academic year, JMU received over 18,000 applications. The state legislature authorized colleges and universities to increase tuition for the first time since 1996. The University's governing board has increased tuition and mandatory fees to offset most of the reductions in the state General Fund appropriations noted above.

EXECUTIVE SUMMARY

SPECIAL REVIEW OF THE CASH MANAGEMENT AND CAPITAL BUDGETING PRACTICES IN THE VIRGINIA DEPARTMENT OF TRANSPORTATION

The Virginia Department of Transportation's recent cash shortages resulted from a lack of cash and project management, and not matching construction projects in the Six Year Program to available resources. Transportation does not have a systematic way to identify its maintenance needs, and therefore cannot reasonably determine or quantify these maintenance needs. Compounding these issues is a complex collection of automated systems that do not consistently exchange data, and do not provide timely and accurate information to support Transportation's management needs.

The comments below summarize the process outlined in Chapter 8, Best Practices. This chapter outlines a process for Transportation to change how management approaches planning, budgeting, reporting, and project and budgeting oversight. Transportation's implementation of these recommendations will require substantial time and effort as well as the cooperation of the Commonwealth Transportation Board, the General Assembly, the Governor, and other state agencies and institutions.

Transportation should make cash management and budgeting a priority for the entire agency. This includes budgeting for all cash inflows and outflows including construction, maintenance, and administrative program sources and uses. As a result of this budgeting change, the General Assembly may wish to consider establishing a reserve fund similar to the Commonwealth's Rainy Day Fund for Transportation to compensate for economic changes. The proposed budget method matches anticipated payouts against anticipated cash flow, and results in the Six Year Program becoming a six-year capital budget.

The Commonwealth Transportation Board (CTB) should develop a prioritization method for project selection as required by the General Assembly. Given a limited pool of resources, and a virtually unlimited list of projects, the CTB must have a process to balance resources against needs and desires. By prioritizing a list of statewide projects and having more realistic project cost estimates, the CTB can provide the public with a transportation plan that allows for construction within available resource.

To achieve accountability with the cash management and budgeting process for both Transportation and the CTB especially within the Six Year Program, we recommend Transportation assign a project management team that follows a project from its inception to its completion. This team has responsibility for the project's development, construction, and progress. The team also reports the project's progress to management and the CTB and includes both the engineering and financial management of the project. The CTB should prepare and present a report to the General Assembly outlining what the Six Year Program achieved and its shortfalls.

The project team concept extends to Transportation's entire operations including maintenance where there is also a need to implement an asset management system. Transportation needs a sound working asset management system to assess and set its funding needs. In addition, this system should allow management to establish the same level of accountability envisioned for the Six Year Program.

To make any decisions properly, Transportation needs timely and accurate information. For proper communication to exist, Transportation must have systems that can interact and exchange information. Data should be reliable and data fields designed for compatibility. Systems should be user friendly and should provide management with timely, accurate, and easily available management reports. Transportation has taken steps toward an interim solution to their information needs problems with the creation of the Data Warehouse; however, the best practice is ultimately an enterprise solution.

NORFOLK STATE UNIVERSITY

Automated Student Information System and Registration Process

The University completed implementation of its new student information system in the fall of 1999. The new student system decentralized the registration process and allowed departments to register students and process class changes on-line. In our previous audit, we reported that management did not completely develop and distribute adequate policies and procedures to ensure all departmental personnel involved in registration understood the process. This lack of knowledge caused many errors in the registration process and greatly increased the workload of the Registrar, Student Accounts and Financial Aid Offices in determining accurate student account balances.

Management has established policies and procedures and provided training to departments with respect to the registration process. However, this report identifies concerns we continue to have with development and enforcement of certain policies and procedures. Students continue to register for classes without clearing their previous debts to the University. Establishing specific rules within the student system could prevent these students from registering. Existing procedures do not include formal reconciliations to verify student housing and meal charges, and the accurate recording of advance payments from students. These reconciliations serve as an important internal control measure to determine the accuracy of student account balances.

The University has undertaken an extensive effort to research all student accounts that may have inaccurate charges assessed in prior periods to determine appropriate balances outstanding. The University should continue this research and adjust student account balances to properly reflect collectible assets.

As a result of this research, the University has identified approximately \$52,000 of federal financial aid inappropriately used to pay student charges. Federal regulations require the University to return these funds to the grantor. As the University continues its research, they expect to find more instances resulting in federal funds due back to grantors. We will continue to monitor the University's progress in identifying and resolving these student account balances. We cannot project the liability to grantors at this time.

Although this audit examined the financial statements for the year ended June 30, 2001, we continued to examine and test internal control and other processes through the end of our work in June 2002. The comments contained in the "Internal Control and Compliance Findings and Recommendations" section of the report reflect issues that University management must address as of the date of this audit report.

VIRGINIA VETERANS CARE CENTER

We have conducted a special review of certain accounts and records of the **Virginia Veterans Care Center** for the period January 1, 1998 to February 7, 2002. The review was a result of a request from the Attorney General's Office and included the Virginia State Police. The State Police are continuing to review and investigate certain matters related to the Virginia Veterans Care Center and they have reviewed the information in this report. We believe the matters in this report require the Board's attention and should not wait for the conclusion of the State Police investigation.

SUMMARY OF FINDINGS

We could not find supporting documentation for 24 disbursements totaling \$30,221. We turned all information concerning these 24 unsupported disbursements over to the State Police for further investigation. Their investigation is still in progress.

We also identified 139 local fund transactions totaling \$29,580 that do not appear to comply with Board of Trustee approved guidelines on the use of Welfare funds. We found numerous payments from the Welfare fund for flowers and fruit baskets for Board members, plaques for Board members, business cards, planners, shipping and courier charges, post office box rental, domain registration for the Care Center's internet page, printer cartridges, and CD ROMs. We also found that the Executive Director purchased \$900 in oranges from the former Board Chairman who was selling them for his Lion's club. Staff told us that the Executive Director gave the oranges to the contractor employees for Christmas.

Although not included in our original scope of this review, we found other matters of concern as follows:

1. The Executive Director deposited \$468,358, the Care Center's share of the veterans' subsidy payments, in a local savings account and made payments from this account circumventing the state's appropriation process. The Appropriation Act and the Code of Virginia require the Center to deposit these collected funds with the State Treasurer and State Comptroller subject to the state's appropriation process.
2. The Executive Director, as contacting officer for the Care Center, and the contractor entered into several agreements whereby the Executive Director agreed to reduce the contractor's monthly lease payments for the Center. The reduction in the monthly lease payment would cover the cost of purchases made by the contractor at the direction of the Executive Director. We believe that these agreements may have circumvented state purchasing guidelines and laws allowing the Executive Director to make purchases without involving either the State Treasurer or State Comptroller totaling at least \$40,750.
3. The Care Center has not updated its fixed asset listing for acquisitions and disposals in several years.

SUMMARY OF QUESTIONABLE ITEMS

24 unsupported payments	\$ 30,221
139 questionable payments	29,580
Equipment purchases outside state procurement	40,750
Christmas bonus and other payments	<u>15,750</u>
Total	<u>\$116,301</u>
Payments not deposited with the State Treasurer	<u>\$468,358*</u>

* On February 26, 2002, the Board deposited \$398,613
of this amount with the State Treasurer

The report includes eight recommendations to strengthen internal controls and policies, all of which the Board has adopted.

SUMMARY OF REPORTS ISSUED

SUMMARY OF REPORTS ISSUED

The following reports on audit were released by this Office during the period July 1, 2002 through September 30, 2002. Those reports which included findings in the area of internal controls or compliance are indicated by an (*) asterisk.

State Agencies and Institutions

Judicial Branch

Public Defender Commission for the two-year period ended June 30, 2002

Executive Departments

Executive Offices

Division of Selected Agency Support Services for the year ended June 30, 2002

Office of the Attorney General for the year ended June 30, 2002

Governor's Cabinet Secretaries for the year ended June 30, 2002

Office of the Governor for the year ended June 30, 2002

Office of the Lieutenant Governor for the year ended June 30, 2002

Commerce and Trade

Virginia Racing Commission for the year ended June 30, 2002

Education

Virginia's Museums for the years ended June 30, 2000 and 2001

Colleges and Universities

James Madison University for the year ended June 30, 2001

James Madison University, Intercollegiate Athletic Programs for the year ended June 30, 2001

Mary Washington College for the year ended June 30, 2001*

Norfolk State University for the year ended June 30, 2001*

Norfolk State University, Intercollegiate Athletic Programs for the year ended June 30, 2001

Virginia Community College System for the year ended June 30, 2001*

Public Safety

Virginia Correctional Enterprises Department of Corrections for the period January 1, 2001 through December 31, 2001*

Technology

Department of Information Technology, Service Organization Review Report on Policies and Procedures Placed in Operation and Tests of Operating Effectiveness as of March 31, 2002*

Special Reports

Report to the Joint Legislative Audit and Review Commission for the quarter April 1, 2002 to June 30, 2002

Special Review of Cash Management and Capital Budgeting Practices, Virginia Department of Transportation dated July 8, 2002*

Virginia Veterans Care Center for the period January 1, 1998 to February 6, 2002*

Clerks of the Circuit Courts

Cities:

City of Charlottesville for the period April 1, 2001 through March 31, 2002*

City of Colonial Heights for the period April 1, 2001 through March 31, 2002*

City of Danville for the period April 1, 2001 through March 31, 2002

City of Martinsville for the period April 1, 2001 through March 31, 2002

City of Virginia Beach for the period April 1, 2001 through March 31, 2002

City of Waynesboro for the period April 1, 2001 through March 31, 2002

Counties:

County of Accomack for the period April 1, 2001 through March 31, 2002*

County of Albemarle for the period January 1, 2001 through March 31, 2002*

County of Alleghany for the period April 1, 2001 through March 31, 2002

County of Amherst for the period April 1, 2001 through March 31, 2002

County of Arlington for the period April 1, 2001 through March 31, 2002*

County of Augusta for the period January 1, 2001 through December 31, 2001

County of Brunswick for the period January 1, 2001 through December 31, 2001

County of Charlotte for the period April 1, 2001 through March 31, 2002*

County of Essex for the period April 1, 2001 through March 31, 2002

County of Fairfax for the period April 1, 2001 through March 31, 2002

Clerks of the Circuit Courts

Counties: (cont.)

County of Fluvanna for the period April 1, 2001 through March 31, 2002
County of Giles for the period January 1, 2001 through March 31, 2002
County of Goochland for the period April 1, 2001 through March 31, 2002
County of Greenville for the period April 1, 2001 through March 31, 2002*
County of Henry for the period January 1, 2001 through December 31, 2002
County of Lee for the period January 1, 2001 through December 31, 2002
County of Lunenburg for the period April 1, 2001 through March 31, 2002
County of Middlesex for the period January 1, 2001 through March 31, 2002
County of Northampton for the period April 1, 2001 through March 31, 2002
County of Northumberland for the period April 1, 2001 through March 31, 2002
County of Orange for the period January 1, 2001 through December 31, 2002
County of Patrick for the period July 1, 2001 through June 30, 2002
County of Prince Edward for the period April 1, 2001 through March 31, 2002
County of Richmond for the period April 1, 2001 through March 31, 2002
County of Spotsylvania for the period April 1, 2001 through March 31, 2002